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News & Commentary

See where Apache Corp. says it found billions of barrels of oil; A sleepy corner of west Texas is home to an 'immense' discovery

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A sleepy corner of west Texas is home to an 'immense' discovery

Apache Corp. stock is among the top gainers this week after the energy company revealed an "immense" oil and gas reserve in a relatively unknown corner of west Texas.

Apache (APA, US) estimated that its more than 300,000 contiguous acres in the region holds about 3 billion barrels of oil and 75 trillion cubic feet of natural gas. It called the field Alpine High.

Alpine High is located in the Delaware Basin, which is a sub-basin in the southwest corner of the Permian Basin. The Permian itself is mostly located in west Texas, with a small area straddling southeastern New Mexico.

[Texas estimates the Permian already has produced 29 billion barrels of oil](#), and says industry experts estimate it to contain "recoverable oil and natural gas resources exceeding what has been produced over the last 90 years."

The Permian accounted for nearly 20% of total U.S. oil production a few years back. Formations like Spraberry and Wolfcamp had been way more prolific than the Delaware as seen in this map from the Energy Information Administration:

Until recently experts considered the area a poor candidate for hydraulic fracturing, a process that uses water mixed with sand and chemicals to unlock oil and gas trapped in rock. Analysts at UBS said the area has received "minimal focus from the industry to date."

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When Apache announced the discovery on Wednesday, the stock rose more than 7%. Weekly gains reached more than 14% on Friday, the stock's best weekly rise since mid March. In comparison, the S&P 500 index (SPX, US) lost 1.3%. Crude oil, meanwhile, fell sharply Friday but was still on track to log about a 4% weekly gain.

<https://w.graphiq.com/w/8FN3lnw0OuV> Analysts at Citigroup estimated Apache's new discovery to be worth about \$3.7 billion. The analysts calculated Apache will have to invest about \$1.5 billion over the next five years to start developing the field, which is rich in natural gas.

Apache said it was increasing its 2016 capital spending plan by \$200 million to \$2 billion. Developing Alpine High will eat more than 25% of Apache's total spending program.

The play "won't be ready for prime time until 2018," but there's further upside for the field over time,

analysts at Credit Suisse said in a note. Credit Suisse was among several investment banks that increased their price targets for Apache's stock, by \$4 to \$67 a share.

According to FactSet, Apache shares average a price target of \$57.47, about 2% below Friday prices.

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